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THE IMPORTANCE OF PROJECT GOVERNANCE FRAMEWORK IN PROJECT PROCUREMENT PLANNING

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ABSTRACT

Project Procurement is a ‘great’ environment for ethical issues with its low-price state of mind and competition. It has many opportunities that could contribute to illegal activities or unethical behavior especially in the construction industry. In 2006 alone, 17.3% of 417 Malaysian government contract projects were considered sick due to the poor performance by the contractors. Therefore it is important to govern the project procurement, especially the plan procurement stage to ensure the accountability and transparency of the decision made in awarding the right contract to the best contractor. This is where project governance framework (PGF) is really needed in project procurement planning. Project governance is a subset of corporate governance focusing on the areas of corporate governance related to project activities, including: portfolio direction, project sponsorship, project and program management and efficiency and disclosure and reporting. This paper highlights the importance of implementing project governance framework (PGF) to ensure that the decision makers are answerable and accountable to the stakeholders, and the decision making is transparent to avoid any ethical issues arises. A comprehensive preliminary literature is carried out to discover the importance of executing PGF in project procurement in Malaysian public sector. By understanding the important of PGF, it is hoped that this will bring a signal to other developing countries to implement the similar method in ensuring the transparency of the decision making in project procurement planning in their countries.

Keywords: governance, project governance, accountability, project, plan procurement

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1. INTRODUCTION

Project Procurement is a ‘great’ environment for ethical issues with its low-price mentality and competition. Surveys conducted by researchers in Australia (Ray *et al.*, 1999; Drew, 1992; Zarkada *et al.*, 1998; Celentani & Ganuza 2002; Lansing & Burkand, 1991, Schwartz, 2004 and Hill *et al.* 2009) identified several unethical conducts and ethical issues in project procurement such as conflict of interest, bid shopping, collusive tendering, bid cutting, corruption and payment game. It is apparent that there exist significant areas of concern pertaining to the ethical behaviour practiced in project procurement that needs attention. There are many efforts taken to increase the ethical standards and integrity among the people involved in the project procurement. That is why it is important to govern the project procurement processes especially the plan procurement stage to ensure the accountability and transparency of the decision making process. Before we go further on, it is important for us to understand the concept of governance to have a better view this study.

Governance has become a frequent concepts used in different field and it is not a new concept. The word ‘governance’ is associated with words like government, governing and control (Klakegg *et al.*, 2009). Control here means being able to decide, define limitations or delegate authority. Governance is a term that carries different meanings. Its rise to prominence stems from the difficulties of hierarchical coordination by firms or the state (Miller & Lessard, 2000). The concept of governance has been used widely in different context and fields. The needs of accountability and transparency have initiated the idea of the term governance not only in the organization, corporate but to the individual project as well. Rhodes (1997) defined governance as a “non-hierarchical form of steering, where state and nonstate actors participate in the formulation and implementation of public policy”. This means that both accountability and transparency should be implemented so that each stakeholder could participate in the formulation of the policies. In project management, it is important for an organization to be able to differentiate between organizational governance and project governance. It is two different terms that carries different meaning.

Given that this research is focusing on public sector, therefore it is good to understand governance from the definition by OECD. OECD (2005) described public governance as the formal and informal arrangements that determine how public decisions are made and how public actions are carried out, from the perspective of maintaining a country’s constitutional values in the face if changing problems, actors and environments. Public or the citizens is the important stakeholders to the public sectors. It is vital for us to really able to be accountable and answerable towards any actions made to the citizens. For companies and other private sectors they are under the term of corporate governance. They are accountable more to the shareholders. On the other hand Project Governance is accountable to the stakeholders of a project.

The importance of project governance has become the central discussion among academicians and practitioners. Lack of governing could lead to appalling project outcomes. One of the project in Boston, the Central Artery/Tunnel (CA/T) which is also known as the Big Dig Project that is the

largest federally funded public works project in United States (US) history. The cost of the project has ballooned to US\$13.6 billion by 2000 from US\$2.4 billion in 1984. In 2002, the cost had incurred to US\$14.6 billion. A federal task force conducted a review on project cost and oversight in early 2000 and identified, among others factors, a lack of governing as a main reason for cost overruns (Murphy, 2002; Federal Highway Administration, 2000). Another case that involved cost overruns and delays was the Fast Ferry project by the provincial government of British Columbia, Canada in 1994. An audit was conducted by the Officer of the Auditor General of British Columbia in 1999 and it was found out that the cost overrun was due to poor project governing. These are some of the examples that show the importance of governing the project procurement at different stages of procurement itself.

2. PROJECT PROCUREMENT PLANNING

Plan Procurements (formerly known as procurement planning and plan purchases and acquisition) is one of the first tasks that need to be performed on a project. This is the stage to decide which goods and services will be done internally and which goods and services will be carried out by suppliers and contractors. Planning is the foundation for all management fields including project procurement. It is a function that forms the foundation for the rest of the management functions. When planning is properly conceived and implemented, it can serve as an important mechanism for extracting, distributing and allocating resources (James, 2004).

What is planning? Generally, planning enhances the gathering, evaluating and interpreting of foundation data and information in order to generate knowledge for good policy making in the government. Plan Procurement is the key function that sets the stage for procurement process. It is seen to be very important especially in large and complex project that involve multi-million dollar requirements. As a key project activity, the need for planning emerges to be underemphasised at the initial stages of procurement projects but the lack of it is highlighted at projects' end. According to PMBoK (2004), plan procurement involves determining whether to acquire outside support, if so what to acquire, how to acquire it, how much is needed, and when to acquire it. This process also includes consideration of potential sellers, mainly if the buyer wishes to implement some measure of influence or control over acquisition decisions. Whatever decisions made in plan procurement can also influence the project schedule and are integrated with developing the schedules in the future. Plan procurement calls for early involvement of the purchasing office so that options and alternatives can be explored with the requesting user. Issues such as purchase estimates, product specifications, make or buy decisions, and outsourcing opportunities may be very well being on the agenda (Mathews, 2005).

In Malaysia, the importance of plan procurement is supported and encouraged by project management experts and government departments (Ministry of Finance, Public Work Department, Economic Planning Unit and Treasury Board). This is because the procurement contract can lead to dissatisfaction, ethical issues and time-consuming detours when it is not properly done. At the end of the day, projects and procurements should be well planned for reasons other than exposure or

reputational risks; they should be well planned to ensure the establishment of compliant and effective contract mechanisms that will ensure provision of qualified, capable and professional results to departments (Deme, 2009). Mullins (2003) has argued that procurement planning is process of determining the procurement needs of an entity and the timing of their acquisition and their funding such that the entities operations are met as required in an efficient way. However if this stage are not properly govern, therefore it is difficult to meet all the requirements and objective of project procurement. Thus, this could cause high risk to the project completion.

In has been argued that planning is not concerned with future decision but rather with the future impact of decisions made today and thorough planning is critical as agencies are always facing budget constraints that cannot satisfy all capital acquisition needs (Drabkin & Thai, 2003 as cited in Basheka, 2008). Any ethical issues and ethical behaviour should be solved in the procurement planning itself. In public sector, as the expenders of public funds, it is important to operate the project procurement on rigid guidelines. Doing what is honest, forthright and in the best interest of the organization and public is normally included in the guidelines or the code of ethics. Unfortunately, public sectors do not always operate within these parameters and when these boundaries of code of ethics are crossed, there is tremendous public scrutiny and even bad consequences. Therefore project governance must be in this picture in order to ensure that the process of project procurement planning could be governed and a good decision could be made.

3. PROJECT GOVERNANCE

Project governance is a new concept that has recently explored by the practitioners and academicians. It has become the intention of many researchers (Lieu, 2004; McKuster & Crair, 2006; Abednego & Ogunlana, 2006; Renz, 2007; Sankaran et. al., 2008; Bekker, 2008; and Yilin & Ling, 2008). Project governance is a subset of corporate governance focusing on the areas of corporate governance related to project activities, including: portfolio direction, project sponsorship, project and program management and efficiency and disclosure and reporting (Garland, 2009). The tools needed to deliver accurate and strong project analysis have been around for years. The project management literature on governance reveals that the term is used in a variety of ways and has a variety of meanings. Governance is generally understood to encompass authority, accountability, stewardship, leadership, direction and control (Australian Government, 2006). Governing the pre-stage of project procurement is crucial as it will determine the successfulness of that particular project. From the literature on corporate and project governance there appears to be common terms, such as accountability, authority, relationships, controlling and monitoring for the benefits of stakeholders.

Therefore, project governance provides the structure through which the objectives of the project are set, the means of attaining those objectives determined, and the means of monitoring performance are determined (Turner, 2006). The important focus of project governance is to ensure that the project objectives are aligned with the organization portfolio and objective. Therefore, there

are three main goals of project governance: choose the right project, deliver the chosen project efficiently and to ensure projects that have been chosen can be sustained.

3.1 Project Governance Model

Many early studies did not offer a theoretical framework to demonstrate project governance practices especially in public sectors. Miller & Hobbs (2005) formulated a new trend in project management: “Project governance has only recently become an issue of importance community and literature. Over the last ten years there has been more interest in the governance of projects in general and the governance of large complex public projects in particular”. Project Governance is the framework around selection, prioritization and project oversight for continued adherence to organization objectives. When the public sector applied this concept to the implementation of their projects, it actually could assist in changing project’s scope base on project oversight. According to Garland (2009), the project governance framework must clearly show the decision making path that does not involve the stakeholders directly in the decision making. This is to avoid from the decision making process to be prolonged which could cause delay to the project implementation. It is important to ensure that the decision making only involve people who really knows about the project and involve in the project from beginning till the end. There must have a clear framework to differentiate between the organizational governance and project governance so that there will be no interference among them in making decision. According to Garland’s model also, when the decision making path is made clearly in the organization, therefore it can be seen visibly who is accountable for the whole project. This is really needed to be addressed because organizational decision making plays no part in project decision making based on this model. However, in Malaysia there are lack of methods for governing the project procurement as there are too many bureaucracy and red tape involved in it that caused delay and problems in the decision making process. When there are too many interference from other party it could cause problem to the decision makers for that particular project. This happened between Works Ministry and Public Works Department as there is interference in handling the projects. This interference has caused delay to project implementation and decision making process. By implementing a project governance framework, these problems can be hindered as the line of accountability is clearly defined.

Working from the opposite end of effective project governance, the Project Management Institution (PMI) has developed an integrated set of standards focusing on the processes required to manage projects, programs and portfolios. These baseline standards are supported by best practices and organizational maturity as defined by PMI’s Organizational Project Management Maturity Model (OPM3) and individual competencies described in the Project Manager Competency Development Framework (PMI, 2002 to 2006). From the above characteristics, it can be seen that public sectors are still lacking these good characteristics of project governance. The primary focus of an effective project governance system is the elimination of project failure; doing the right projects and doing them right time after time (Weaver, 2007). Projects deliver new capacity and capabilities to organizations that contribute to its ability to generate revenues or reduce costs (or

both). Consequently it can be seen that a key secondary focus of effective project governance is the monitoring and forecasting of the impact of project performance on overall organization performance to meet reporting obligations required by the project stakeholders and top management.

It is important to differentiate the accountability and responsibility between organizational structure and project structure. Here comes the project governance that will ensure the transparency of the plan procurement. Transparent means that there is tangible and understandable link between what is being done, the way it is being done and the project outcome (Walker et. al., 2008). To perform accountability, we need to have a transparency process. Project governance will help in outlining the relationships between internal and external people involved in the project including the project stakeholders. Each individual who is involved in the plan procurement decision making plays different roles that will influence the decision that they are making (Bomer, 1987). These people that have different characteristics, norms, morals and values will have an impact on the plan procurement.

3.2 The importance of Project Governance Framework (PGF)

This paper focuses on public sector projects; therefore it is very important to understand the project environment in public sector projects. According to Pillai (1995), transparency and accountability are important in the public sector because the sector has a profound and pervasive effect on the lives of citizens and on the activities of the private sector. Therefore, transparency and debate to improve the analysis need to be implemented. Unaccountable decision making could increase the danger of corruption. This includes the diversion of public resources, risk of costly project and project rejection.

The government context is characterized by “uncertainty, ambiguity and stakeholder management issues that are multifaceted and complex” (Crawford *et. al.*, 2003) and is subject to political pressures, issues of public scrutiny and accountability that provide points of differentiation from the private sector and place specific emphasis upon governance (Crawford & Helm, 2009). Most developed countries have recognized the importance of adapting project management methodologies in the public sector projects. This is crucial as to the increase number of public inquiry and a need for assurance of value from public expenditure and the tax which the public has paid. In Australia, effective use of resources, timely delivery, and maintenance of public confidence were key drivers behind a review of problems associated with major defences’ acquisition projects (Kinnaird, Early, & B, 2003). The responsibility of public sector in implementing public policy, ensuring effective service delivery and infrastructure, fully utilize of public funds is the whole of government subject to media attention which can be politically harmful.

The reason for establishing the ICU was to encourage earlier and more effective planning for implementation of public policy decisions through greater utilization of good project management principles and practices (Malaysia Department of Prime Minister, 2005). In Malaysia there are legal framework consists of Procurement Guidelines Book, The Financial Procedures Act 1957, The

Treasury Instructions (TI) and the Treasury Circular Letter (TCL) that apply to procurement by all federal, state governments and semi governmental agencies. However, these legal frameworks are insufficient in ensuring the accountability and transparency of the project procurement. Therefore, by having effective and good project governance it could assist in building trust and cooperation between top management, project sponsor and project team members. Efficiency in project procurement is an important issue in cases where public sector procurement accounts for a large portion of economic activity. By ensuring transparency in the procurement procedure especially in an essential determinant of efficiency, as it enhances the competitiveness of public sector plan procurement.

The analysis and findings from the literature review has obtained the theoretical model that includes the internal and external factors that is part of the project governance framework for project procurement planning. The final argument presented in this section is a conceptual model that combines the factors that contributes to ethical decision making in plan procurement that has been classified to two factors; internal and external factors, the project governance framework that will enhance the ethical decision making in plan procurement in the public sector. The proposed project governance framework as in Figure 1 will ensure the accountability and transparency of the decision making in plan procurement. To date, comprehensive research has been done on dealing with the problems of project procurement in the tendering process. However, there are also the needs to study the plan procurement or the project procurement planning or the pre-award phase. It is crucial for the public sector to have a framework to guide the decision making in procurement planning.

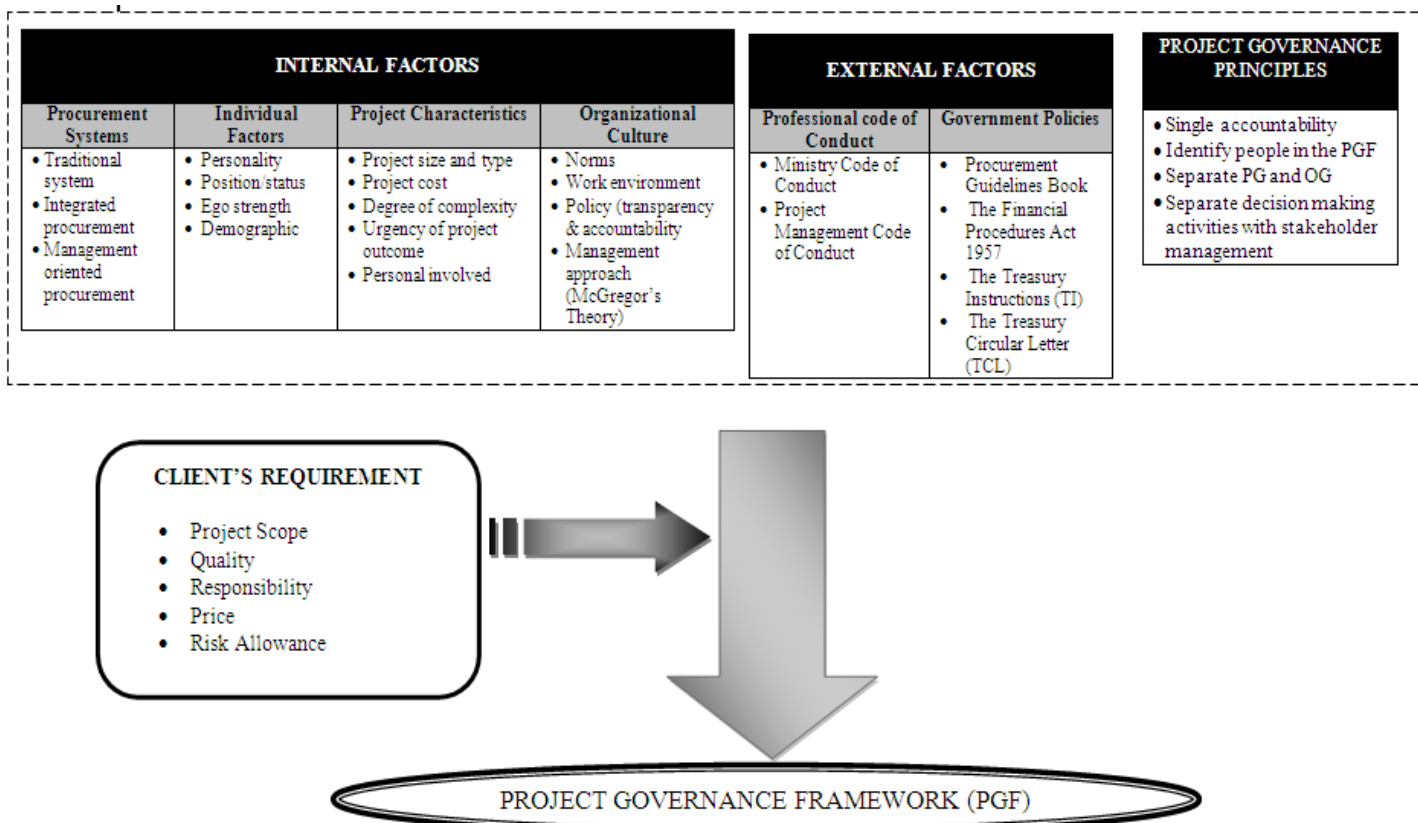


Figure 1: Proposed Project Governance Framework (PGF) for project procurement planning

4 CONCLUSIONS

Efficiency in project procurement is an important issue in cases where public sector procurement accounts for a large portion of economic activity and also the tax payers' money. By ensuring transparency in the procurement procedure especially in an essential determinant of efficiency, as it enhances the competitiveness of public sector project procurement planning. By improving the transparency of project procurement planning this could divert public sectors expenditure away from activities that could provide an opportunity for illegal activities. One way to overcome this problem is through implementing a project governance framework where the transparency and accountability are clearly described. At the same time, the project governance framework also provides a clear distinction between ownership and control of tasks. This is important as the Malaysian government needs to take the appropriate action to overcome numerous loop-holes in the public project procurement activities to ensure a more transparent and efficient system (Othman, 2010).

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